

## SPECIAL FEATURE

# An Analysis of the Informal Labour Market in India

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*The Indian labour market is characterised by predominance of informal employment with more than 90 per cent of India's informal workforce working as self-employed and casual workers. The worrying trend is the increasing rate of informal employment even in the organised sector. By highlighting some of the not so easily observable trends, the article tries to argue that the challenges to informalisation are multi-faceted and that a single tool like labour reforms alone cannot address it completely. The need of the hour is to generate an enabling environment that will develop the urge of "formal" culture in the labour market.*

**T**oday the unorganised or the informal sector account for more than 90 per cent of the workforce in the country and almost 50 per cent of the national income evolves from this sector<sup>2</sup>. Ever since the initiation of the liberalisation policies in the early nineties, informalisation of jobs has become a matter of concern. Growing competition combined with increased market opportunities and limited resources have led to the emergence of an informal economy. The predominance of the informal sector has led to a situation of the benefits of economic growth being concentrated among few with a growing proportion of the population living as working poor. Though the Government changed its policy strategy to that of inclusive and sustainable growth in the last decade, the fundamental issues leading to growing informalisation are yet to be

targeted. In this article an attempt has been made to look at the extent of informalisation of employment and what could be the way out to reverse the trend towards formalization.

### Trends in Formal- Informal Employment

Formal-Informal employment is spread across two sectors viz; organised (formal) and unorganised (informal). The National Commission for Enterprises in the Unorganised Sector (NCEUS) has defined the informal/unorganised sector as all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten workers. Informal workers being spread both in the

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organised and unorganised sector, the NCEUS also gave a definition of informal workers as, “Informal workers consist of those working in the informal sector or households, excluding regular workers with social security benefits provided by the employers and the work-

ers in the formal sector without any employment and social security benefits provided by the employers”. The present article uses the NCEUS definition to identify the spread of formal / informal employment across organised-unorganised sectors.

**Table-1 : Formal-Informal Employment across Organised- Unorganised Sectors**  
(in million)

2004-05			
	Organised	Unorganised	Total
Formal	32.06 (52)	1.35 (0.3)	33.41 (7.3)
Informal	29.54 (48)	396.66 (99.7)	426.20 (92.7)
<b>Total</b>	<b>61.61</b> <b>(13)</b>	<b>398.01</b> <b>(87)</b>	<b>459.61</b> <b>(100)</b>
2011-12			
	Organised	Unorganised	Total
Formal	37.18 (45.4)	1.39 (0.4)	38.56 (8.1)
Informal	44.74 (54.6)	390.92 (99.6)	435.66 (91.9)
<b>Total</b>	<b>81.92</b> <b>(17.3)</b>	<b>392.31</b> <b>(82.7)</b>	<b>474.23</b> <b>(100)</b>

Source: Computed using unit level data of NSSO various rounds

Note:- Population projected for year 2004-05 and 2011-12 using decadal population growth rate between Census 2001 and 2011.

Figures in brackets indicate per cent share

The composition of employment in the organised vs unorganised sector was in the proportion 13:87 in 2004-05 and 17:83 in 2011-12 (Table-1) indicating an increase in organised sector employment from 13 per cent in 2004-05 to 17 per cent in 2011-12. But this increase in organised sector employment was informal in nature (48 per cent in 2004-05 increased to 55 per cent in 2011-12) while the share of organised formal employment decreased (52 per cent in 2004-05 decreased to 45 per cent in 2011-12). But in the unorganised sector the share of formal employment marginally increased from 0.3 to 0.4 per cent and that of informal employment declined marginally from 99.7 to 99.6 per cent. On the whole the number of formally employed increased from 33.41 million in 2004-05 to 38.56 million in 2011-12, while informally employed

increased from 426.20 million to 435.66 million during this period.

### Broad Sectoral Distribution of Employment

In agriculture sector which is the main contributor of employment, nearly 97 per cent of the employment is informal in nature (Table-2). But the share of agriculture in total employment has decreased from 58.50 per cent in 2004-05 to 48.90 per cent in 2011-12 which is indicative of the structural transformation of the sector. In manufacturing sector the increase in share of employment was accounted for by the organised sector which showed an increase in both formal and informal employment.

**Table-2 : Broad Sectoral Distribution of Formal-Informal Employment**  
(in percent share)

2004-05	Organised Sector		Unorganised Sector		Total
	Formal	Informal	Formal	Informal	
Agriculture	0.76	0.99	0.00	56.75	58.50
Manufacturing	1.21	2.10	0.10	8.33	11.73
Non-manufacturing	0.53	1.45	0.00	4.42	6.41
Services	4.48	1.89	0.19	16.80	23.36
<b>Total</b>	<b>6.98</b>	<b>6.43</b>	<b>0.29</b>	<b>86.30</b>	<b>100.00</b>
2011-12	Organised Sector		Unorganised Sector		Total
	Formal	Informal	Formal	Informal	
Agriculture	0.06	0.16	0.00	48.69	48.90
Manufacturing	1.48	2.79	0.06	8.28	12.60
Non-manufacturing	0.69	3.77	0.01	7.18	11.65
Services	5.62	2.72	0.22	18.29	26.84
<b>Total</b>	<b>7.84</b>	<b>9.43</b>	<b>0.29</b>	<b>82.43</b>	<b>100.00</b>

Source: Computed using unit level data of NSSO various rounds

In non-manufacturing which comprises of the construction sector there was an increase in employment across both the organised and unorganised sector as well as in the formal and informal sector, though the share of informal employment was higher. The same trend was observed in the services sector also.

### Trends in Informal Employment in Non-Agricultural Sector

In Table-3 the sector-wise distribution of informal em-

ployment in the non-agricultural sector is captured. The distribution of informal employment both in the organised and unorganised sector shows that manufacturing, construction and trade, hotel & restaurant are the main employment generating sectors. Informal employment in the non-agricultural sector increased from 160.83 million in 2004-05 to 204.03 million in 2011-12, an increase of 27 per cent.

**Table-3 : Informal Employment in Non-Agricultural Sector (in million)**

Non-Agricultural Sector	2004-05			2011-12		
	Organised	Unorganised	Total	Organised	Unorganised	Total
Mining	0.91	0.90	<b>1.82</b>	0.99	0.80	<b>1.79</b>
Manufacturing	9.64	38.28	<b>47.92</b>	13.23	39.26	<b>52.49</b>
Electricity & water supply	0.16	0.08	<b>0.24</b>	0.78	0.43	<b>1.21</b>
Construction	5.60	19.35	<b>24.94</b>	16.12	32.80	<b>48.92</b>
Trade, hotel & restaurant	1.71	44.30	<b>46.02</b>	2.57	47.60	<b>50.17</b>
Transportation, storage & communications	1.35	13.31	<b>14.66</b>	2.31	15.71	<b>18.02</b>
Real estate other business activities	0.49	2.93	<b>3.43</b>	1.05	3.96	<b>5.02</b>
Education	2.40	2.75	<b>5.15</b>	3.55	2.75	<b>6.31</b>
Finance	0.41	0.72	<b>1.13</b>	0.67	1.14	<b>1.81</b>
Health	0.61	1.49	<b>2.10</b>	1.02	1.66	<b>2.68</b>
Public admin, defence	1.09	0.08	<b>1.17</b>	1.11	0.00	<b>1.11</b>
Other services	0.64	11.62	<b>12.26</b>	0.58	13.92	<b>14.50</b>
<b>Total</b>	<b>25.01</b>	<b>135.81</b>	<b>160.83</b>	<b>44.00</b>	<b>160.04</b>	<b>204.03</b>

Source: Computed using unit level data of NSSO various rounds

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Informalisation almost doubled in the construction sector where the informal employment increased from 24.94 million to 48.92 million during this period, with the increase being concentrated in the unorganised sector. In the manufacturing sector the increase in informal employment was mainly in the organised sector, while in the trade and transport sector the increase in informal employment was evenly spread among both sectors.

### Spatial and Gender-wise distribution of Informal Employment

In Table-4 the workforce at 2-digit NIC (National Industrial Classification) level was disaggregated to understand the spatial and gender distribution of informal employment.

**Table-4 : Distribution of Informal Employment Gender and Spatial wise in 2011-12**  
(share in per cent)

Sectors	Rural Male	Rural Female	Urban Male	Urban Female
Crop and animal production, hunting and related service activities	99.98	99.97	98.89	99.73
Construction	98.55	99.92	92.17	97.19
Retail trade, except of motor vehicles & motorcycles	98.89	99.36	97.49	96.66
Land transport and transport via pipelines	92.85		83.38	
Other services	97.32		92.62	96.44
Education	36.19	60.27	37.39	50.61
Manufacture of other non-metallic mineral products	92.64			
Manufacture of food products and beverages	86.82		86.14	96.26
Manufacture of wearing apparel	95.94		94.12	94.78
Hotels & restaurants	97.65			92.97
Manufacture of tobacco products		98.83		93.69
Manufacture of textiles		98.85	86.23	97.94
Business Activities			58.79	46.86
Public administration and defence; compulsory social security				14.31
Wholesale trade, except of motor vehicles & motorcycles			90.98	
Manufacture of furniture			94.95	94.92
Manufacture of fabricated metal products, except machinery and equipment			82.58	
Human health activities (hospital, medical)			62.03	52.27
Financial service activities, except insurance and pension funding			26.61	
Manufacture of machinery and equipment n.e.c.			69.31	
Manufacture of chemicals and chemical products			46.84	
Manufacture of leather and related products			87.69	
Manufacture of computer, electronic and optical products			43.87	
Activities of households as employers of domestic personnel				98.07

Source: Calculated using unit level data of NSSO Employment-Unemployment Survey 2011-12

In Table-4 the economic sectors selected are those that account for more than 90 per cent share in total employment for each of the categories viz; rural males, rural females, urban males and urban females. It may be seen that almost 98-99 per cent of the rural and urban males and females working in the sectors of crop and animal production, construction and retail trade were informal workers. Among the other sectors the distribution of informal workers spatial and gender-wise was not uniform. For instance rural males were engaged in land transport, other services, manufacture of other non-metallic mineral products, manufacture of wearing apparel, hotels & restaurants etc. while more of rural females were engaged in manufacture of tobacco products and textiles. While in the case of urban males majority were engaged in manufacture of wearing apparel, wholesale trade, furniture etc urban females were mainly engaged in manufacture of food products and beverages, wearing apparel, hotels and restaurants, tobacco products, textiles, activities of households as employers of domestic personnel. There was significant involvement of urban males and females in human health activities sector as informally employed, while in the activity involving working as domestic servants was predominated by urban females (98 per cent).

## Reasons for Informalisation of Workforce

Literature indicates labour market rigidities, poor skill levels, increasing competition from imports as the factors inducing creation of informal employment and decline of formal employment opportunities. Labour market rigidity is blamed on the multiple labour legislations that deters the hire and fire policy. But is labour laws a hindrance? In Table-5, a comparison was made between State-wise distribution of informally employed in the manufacturing sector vis-à-vis the labour reform index which shows that even when the labour reform index is high indicating that even in States like Gujarat where the stringency of labour regulations was lowered by procedural changes, simplifying compliance and limiting scope of regulations, the jobs that were created in the manufacturing sector were informal in nature. Similar is the case with Uttar Pradesh and Andhra Pradesh. Irrespective of labour reforms being a hindrance or otherwise, extent of informal employment was more than 90 per cent in the major industrial States. These findings only indicate that labour reforms alone will not reduce informalisation.

**Table-5 : State-wise Distribution of Informal Employment compared with Labour Reform Index**

States	State share in All India manufacturing workforce	Labour reform index	Share of informal workforce in manufacturing in the Stat
Uttar Pradesh	14.44	58	77.45
Andhra Pradesh	7.08	56	91.16
Gujarat	8.71	53	74.29
Rajasthan	4.05	47	85.51
Punjab	3.19	46	93.12
Madhya Pradesh	3.33	46	77.03
Odisha	2.89	44	66.02
Karnataka	5.41	42	91.79
Tamil Nadu	11.11	41	98.54
Maharashtra	10.25	35	99.18
Kerala	2.98	32	78.67
Bihar	2.65	29	98.52
West Bengal	14.18	27	87.82

**Source:** Calculated using unit level data of NSSO Employment-Unemployment Survey 2011-12

**Note:** (i) Selected States account for 90 per cent share in All India manufacturing sector workforce.

(ii) Labour reform index is taken from **Sean Dougherty** article "Labour Regulations and employment dynamics at State level in India" (2008). The index may not capture the labour reform regulations that took place after 2008. The index reflects the extent to which procedural changes have reduced transaction costs, through limiting the scope of regulations, providing greater clarity in their application, or simplifying compliance procedure. Lower value (on the scale of 1-100) index implies the number of reforms carried out by state are few.

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In Table-6 the skill set of the informal workforce in the non-agricultural sector was looked at. Nearly 23 per cent of the workforce was found illiterate both in 2004-

05 and 2011-12. Almost 48 per cent of the workforce had basic education only up to secondary.

**Table-6 : Education Level of Informal Workforce in Non-Agricultural Sector (in per cent)**

Education level	2004-05	2011-12
Illiterate	22.65	22.97
Below primary	10.55	10.74
School education	48.19	48.23
Higher secondary	7.18	7.72
Diploma/certificate	2.30	1.46
Graduation and above	9.13	8.88

Source: Calculated from NSSO unit level data of 2004-05 and 2011-12

It is surprising that skill levels has not seen any noticeable change between the two NSSO Rounds (2004-05 to 2011-12) except among the diploma holders and graduates where the share of the informally employed has come down from 2.30 per cent to 1.46 per cent and from 9.13 per cent to 8.88 per cent respectively. This

could be because with improvement in educational attainment the workforce aspires for formal jobs.

Considering the low skill levels, the status of employment of the informally employed shows that majority are working as self-employed or casual workers which in turn keeps them outside the purview of the labour legislations.

**Table-7 : Status of the Informally Employed Workforce (in million)**

Status	2004-05	2011-12
Self-employed	257.16 (60.34)	244.97 (56.22)
Regular wage/ salaried	36.19 (8.49)	48.79 (11.19)
Casual Worker	132.81 (31.16)	141.91 (32.57)
Total Informal Workforce	426.16 (92.73)	435.66 (91.78)

Source: Calculated from NSSO unit level data of 2004-05 and 2011-12

Note: Figures in brackets indicates the share of the informally employed.

Though the self-employed accounted for a major share of the informal employed, there was a decline in their share by 4 percentage points (Table-7). The share of informal employed in the regular wage & salaried category increased from 8.5 per cent in 2004-05 to 11 per cent in 2011-12. The share of the casual employed increased marginally during this period. Thus out of the total informal workforce, almost 90 per cent are either self-employed or casual.

Increasing imports as a result of trade liberalization is

also a factor for increase in informal employment. An attempt was made to compare the trend in imports in labour intensive industries such as textiles, food processing, leather, gems & jewellery, basic metals, transport appliances and the corresponding increase in informal employment for the period from 2004-05 to 2011-12. As maybe seen in Table-8 in the manufacture of basic metals where there was a 2.43 per cent increase in imports in real terms, the corresponding increase in informal employment was to the extent of 76 per cent.

**Table-8 : Trend in Imports and Informal Employment in Labour Intensive Industries  
(2011-12 over 2004-05)**

Import Items	Proportional increase in imports (at real value)	% increase in informal employment
Fibres synthetic and man made	1.56	12.22
Food processing (edible oils)	1.61	12.51
Dyeing, tanning	1.36	3.50
Non-metallic mineral manufacturers of pearls, precious stones (worked/unworked)	0.98	29.83
Manufacture of basic metals	2.43	75.91
Transport appliances	1.17	34.59

Source:- Economic Survey for Imports data and Authors' own calculations from NSSO unit level data for informal employment

To sum up, setting aside exogenous factors like increase in imports and labour laws, the area requiring urgent intervention is skill development of the labour force which in turn would improve the quality of the workforce as well as the status of employment.

### Way Forward

To sum up a holistic approach is needed to address the issue of informalisation, which to a larger part is due to the socio-economic fabric of the society comprising of a large number of poorly educated labour force, traditional occupations, poor financial inclusion, combined with lack of motivation or aspirational skills. The way forward should be:

- Creating an ambience that would encourage even micro and small enterprises to register and realize that this cost of formalization is coming with benefits of access to finance, better infrastructure, market information, government incentives, a platform for formal association, providing them

legal framework, efforts to overcome uncertainty in financial returns and safety nets for them as well as their workers. This to a large extent will help to overcome challenges to informalisation not only in unorganised sector but also arrest growth of informal employment in organised enterprises.

- This in turn will inculcate a tradition of regulatory compliance in terms of taxes and labour laws. This will not only help to increase the tax base but also help government finance minimum social security cover for workers in those enterprises that still prefer to stay outside the ambit of becoming organised and providing formal employment.
- Lastly, the trend of informalisation would see a reversal with an improvement in skill levels of the workforce that match the requirements of the job market and at the same time improve the bargaining power of the workforce to settle for decent wages, social security and job security.

(The views expressed are personal)